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TAGS: ECON EFIN PREL VE
SUBJECT: NATIONALIZED SPANISH AND ARGENTINE COMPANIES GET
GOOD DEALS FROM GBRV

REF: A. CARACAS 247 AND PREVIOUS
¶B. CARACAS 614

Classified By: Economic Counselor Darnall Steuart for reasons 1.4 (b)
and (d).

¶1. (C) Summary: Local analysts believe two major nationalization agreements recently concluded by the government of the Bolivarian Republic of Venezuela (GBRV) represent good deals for the Spanish and Argentine owners of the nationalized companies. In the case of Banco de Venezuela (BdV), owned by Spanish Grupo Santander, the GBRV agreed to pay USD 1.05 billion and reportedly will allow Santander to repatriate a substantial amount of dividends. In the case of steel maker Sidor, in which Argentine Techint had a 60 percent stake, the GBRV agreed to pay USD 1.97 billion, making the first USD 400 million payment in May. Several of our contacts have speculated national-level political considerations played a role in the relatively generous offers made by the GBRV, especially given its current cash crunch. End summary.

Banco de Venezuela

¶2. (U) On May 22, the GBRV announced a letter of intent with Santander to buy BdV for USD 1.05 billion. The parties would sign the final agreement July 3, at which point the GBRV would take control of the bank, ending an on-again, off-again saga that began July 31, 2008 with President Chavez's surprise announcement of his intent to nationalize BdV (ref A). The GBRV would pay in three installments: USD 630 million July 3, USD 210 million in October 2009, and USD 210 million in December 2009. Although not mentioned in the GBRV's announcement, the press and contacts report the GBRV agreed to approve BdV's request to repatriate dividends to Santander in excess of USD 100 million. (Note: Sources differ as to the exact amount. One BdV employee believed it to be USD 148 million, other reports have ranged from USD 122 to 300 million. Given companies' difficulties in getting approval to repatriate dividends at the official rate (ref B), Santander would consider a guarantee of approval as an important part of compensation. End note.)

¶3. (C) Several local analysts have opined the deal is quite favorable to Santander. Milton Guzman (strictly protect throughout), BdV's chief economist, told Econoffs he shared this assessment. According to Guzman, internal BdV estimates of its value dropped from USD 1.4 to 1.5 billion before the

financial crisis to less than USD 1 billion. He speculated the GBRV's favorable offer may have been due in part to Chavez's desire not to burn bridges with the Spanish government and with Santander's influential chairman Emelio Botin. Guzman said he expected a large exodus of BdV private sector clients before July 3 and that the GBRV would likely use BdV to provide financing for PDVSA and other cash-strapped state-owned enterprises. Finally, Guzman said Santander would not completely depart Venezuela. It planned to keep Bancrecer, a small development bank devoted to providing financial services in poorer areas; and Valores Santander, a small brokerage house. Noting Bancrecer had moved subsequent to the May 22 announcement to close several offices in poorer neighborhoods, Guzman speculated Santander would seek to turn Bancrecer into a commercial or universal bank, thus keeping a small foothold in the traditional banking sector.

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Argentine Company Gets Paid Due to "Special Relationship"
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¶4. (C) After a year of negotiations, Argentina's Techint (Terinium S.A.) reached a final agreement May 7 with the GRBV for the sale of its Sidor unit. Jose Nunez Gomez, senior partner in law firm Tinoco, Travieso, Planchart and Nunez, told Econoff May 8 that USD 1.97 billion was "a good price" for the company. He added that Paolo Roca, the Argentine president of Techint, is close to the Kirchner administration and that the Chavez government would give the Kirchners "anything they want." Gomez reported that three former Sidor

presidents told him in June 2008 that Techint ceded its seat at the negotiating table to the Argentine government, believing this was the only way Techint would get paid.

¶5. (C) Although the GBRV made its first installment payment of $400 million to Techint in May, Gomez claimed he has reason to believe that the Roca family is skeptical it will receive the whole USD 1.97 billion. (Note: The agreement stipulates the GBRV will pay USD 945 million in six equal quarterly installments, with the balance to be paid in October 2010. End note.) However, Gomez argued, the only reason Techint received any kind of payment at all was because of the "special relationship" between the Chavez and Kirchner administrations. The former head of nationalized cement company Holcim Venezuela told Econoff May 7 that the Sidor deal does not give Holcim any greater hopes for payment, as Holcim is a Swiss company, and "the Swiss do not have Senora Kirchner" at their disposal.

Comment

¶5. (C) The deal for BdV, as well as further GBRV nationalizations (or announcements thereof) in the oilfield services and other sectors, suggest President Chavez is intent on keeping momentum toward increased state control of the economy. The fact that Argentine and Spanish companies were offered what appear to be quite favorable terms, unlike, for example, Mexico's Cemex or the U.S.'s Exxon Mobil and Conoco Phillips, suggests a degree of political favoritism is at work. It will be interesting to see if this trend continues. Included in recent nationalization announcements are important oilfield services assets of the Wood Group (U.K.) and Williams (U.S.), as well as several iron briquette companies partially owned by Techint (Argentine). End comment.
CAULFIELD